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SUBJECT: China Export Growth Startles

¶1. (SBU) Summary: China's December trade numbers came in much higher than forecast, with a 17.7 percent increase in December year-on-year (yoY). Imports grew even faster, increasing 55.9 percent in December year-on-year. While the data beat all forecasts, the large increases are in part due to the low base comparison with the unusually weak trade numbers a year ago. Analysts believe the rebound in China's trade, however, will continue well into 2010. At the same time, China's media is predicting that China's trade growth last month will put it ahead of Germany as the world's top exporter for the first time. End summary.

¶2. (SBU) December trade data released January 10 by China's Customs Administration showed much higher than forecast increases in export figures for the month and a slight drop in China's global trade surplus to USD 18.4 billion from 19.1 billion in November. Export growth rebounded to 17.7 percent yoY in December (solidly beating a representative Goldman Sachs forecast of 6.0 percent, and rising an impressive 23 percent over November levels). Key contributing factors include recovery in external demand, the low base effect of 2008's global financial crisis, and the fall in the RMB's effective exchange rate (thanks to the informal peg to a depreciating US dollar). The gain in exports was broadly based across major markets: up 10.2 percent over the previous month to the U.S.; up 10.7 percent to the EU; up 15.4 percent to ASEAN. Sectorally speaking, exports of mechanical and electrical products (which made up 59 percent of total exports) rose 13.4 percent in December mom/sa (month-on-month/seasonally adjusted); high-tech exports were up 11.1 percent; low-end consumer goods were up a lower 7.7 percent mom/sa; clothing rose 7.5 percent mom/sa; toys climbed a paltry 3.7 percent.

¶3. (SBU) Imports growth also rose sharply to 55.9 percent yoY in December (a record high, up from 26.7 percent in November.) Analysts attribute the strong growth in imports to: strong exports (a large part of China's imports are inputs for future exports); rising import prices; and continued strength in domestic demand for commodities and mechanical equipment for infrastructure projects and property construction. Sectoral breakdowns show imports of crude oil rose a hefty 24.1 percent in December month-on-month (seasonally adjusted) and mechanical and electrical products were up 6.7 percent month-on-month. Interestingly, imports of several industrial metals showed slowing gains or outright declines in December.

¶4. (SBU) Looking at 2009 as a whole, Customs data show Chinese exports for the year totaled USD 1.2 trillion (down 16 percent yoY). Imports for the year were down 11 percent. The trade surplus, as calculated by the PRC, decreased by 34 percent to USD 196 billion. The standing of key trading partners remained unchanged with

China-EU trade volume still at the top, U.S. total trade volumes second, and Japan third. (Exports to the U.S. totaled USD 220.8 billion, a 12.5 percent decrease over 2008, and imports were USD 77.4 billion, a 4.8 percent drop from 2008.) Chinese media are making much of the expectation that December's unexpectedly strong export figures will push the PRC ahead of Germany as the world's largest exporter.

**¶** 15. (SBU) A broad array of analysts expect solid recovery in China's exports to continue in early 2010, though not at December's torrid pace. Even the unexpectedly good numbers did not stop Zhang Yansheng, Director of Institute of Foreign Trade of the National Development and Reform Commission, from telling China Daily that export "quality" needs improvement, since a "big proportion of (China's) exports are low value-added." Other Chinese experts have sounded a similar off-note, noting that by measure of technological innovation and industry competitiveness China's status as a trade power remains limited.

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